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Summary:

Ecopetrol S.A.

Primary Credit Analyst:
Fabiola Ortiz, Mexico City (52) 55-5081-4449; fabiola.ortiz@standardandpoors.com

Secondary Contact:
Cecilia L Fullone, Buenos Aires (54) 114-891-2170; cecilia.fullone@standardandpoors.com

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Summary:

Ecopetrol S.A.

Corporate Credit Rating	BBB/Stable/--

Profile Assessments

BUSINESS RISK	SATISFACTORY	Vulnerable — Excellent
FINANCIAL RISK	INTERMEDIATE	Highly leveraged — Minimal

Likelihood of Extraordinary Government Support

Colombia-based oil and gas company Ecopetrol's stand-alone credit profile (SACP) is 'bbb-'. Our 'BBB' corporate credit rating on the company is based on our criteria for government-related entities (GREs) and our view of a very high likelihood that the government of the Republic of Colombia (foreign currency: BBB/Stable/A-2, local currency: BBB+/Stable/A-2) would provide timely and sufficient extraordinary support to Ecopetrol in the event of financial distress based on the following assessments:

- Ecopetrol's very important role in Colombia, given its position as the largest company in the country and the main supplier of oil-derived products in the local market; and
- Ecopetrol's very strong link with the government, based on its government ownership and our belief that it will provide Ecopetrol with sufficient and timely support in all circumstances despite the company's clear corporate governance and independent management team.

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• Leading position in Colombia's oil & gas industry • Low cost producer • Large reserve base and strong reserve replacement • Strong management and governance	• Aggressive expansion plans • Commodity price volatility • Proven access to capital markets

Outlook: Stable

The stable outlook on Ecopetrol reflects that of the sovereign.

Downside scenario

A downgrade is unlikely at this point based on our assessment of the very high likelihood that the government would provide timely and sufficient extraordinary support to the company, if necessary, and that the company's SACP would have to fall below 'bb' to result in a downgrade.

Upside scenario

Any upgrade would depend on a sovereign upgrade, despite any improvement in the company's SACP as the final rating would remain capped by the sovereign foreign currency rating.

Standard & Poor's Base-Case Scenario

Assumptions

- Standard & Poor's current oil and natural gas price assumptions (refer to "Standard & Poor's Revises Its Oil And Natural Gas Liquids Price Assumptions; Natural Gas Price Assumptions Remain Unchanged", Feb. 11, 2013)
- A daily output of hydrocarbons to approximately 1 million barrels of oil equivalent per day (boepd) by 2015
- The company will invest about $9.5 billion during 2013 and $9 billion going forward to reach production levels in 2015
- EBITDA margins of about 45-46%

Key Metrics

	2013E	2014F	2015F
EBITDAX Margin	45%-47%	45%-46%	45%-46%
Debt/EBITDAX	0.7x-0.9x	0.8x-1.0x	0.8x-1.0x
EBITDAX/Interest	24%-26%	20%-25%	20%-25%
FFO/Debt	80%-85%	75%-80%	75%-80%

*E--Estimate. F--Forecast

*Leverage and coverage ratios include operating leases, asset retirement obligations, and pensions adjustments (mainly healthcare liabilities) that increase 2013 debt, EBITDAX, and interest expense by $3.9 billion, $1.1 billion, and $0.3 billion as of June 30, 2013. We do not expect these adjustments to change materially in 2014 and 2015.

Business Risk: Satisfactory

Ecopetrol has a "satisfactory" SACP based on the company's leading position in Colombia's oil and gas industry, its low production costs, its large reserve base and strong reserve replacement, and its proven access to capital markets. As of June 30, 2013, Ecopetrol reached a total average production of 785.1 million boed, which was 4.3% higher than the 753 million boed reported during the same period of last year. We expect the company will reach its estimated 1 million boed production levels by 2015 as a result of the company's aggressive capital investments of about $9.5 billion in 2013. However, we don't expect this to weaken the company's financial performance thanks to its manageable business plan and favorable market conditions where oil prices surpass $70 per barrel.

Financial Risk: Intermediate

The company's stand-alone financial risk profile is intermediate, reflecting a debt to EBITDAX of less than 1.0x as of June 30, 2013. It also reflects Ecopetrol's aggressive capital expenditures (capex) in the next few years, due to the company's commitment to increase production, and our expectation for dividend payments given its positive free operating cash flow generation in the following two to three years. These expectations are based on our price deck for oil and our view that the company will likely continue to gradually increase its production levels to about $1 million barrels per day in 2015. Although we estimate that Ecopetrol will significantly increase debt during to 2013, we expect its debt to EBITDAX ratio to remain at about 1.0x during the next two to three years.

Liquidity: Strong

We assess Ecopetrol's liquidity on a stand-alone basis as "strong" and able to cover its needs over the next 12 to 18 months as we believe the company's sources of liquidity will exceed its uses by 1.50x based on our Brent price deck assumptions. Our liquidity analysis also incorporates qualitative factors, including our view that the company has the capacity to withstand high-impact low-probability events based on its sound banking relationships and satisfactory access to capital markets, as seen by its recently signed Eximbank agreements. Additionally, we believe that the company will issue debt in local and international markets to increase its liquidity.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash as of June 30, 2013 of about $4.4 billion • Funds from operations (FFO) of $13.5 billion • Working capital inflows of about $250 million • Available committed credit lines of $440 million	• Capex of $9.5 billion in 2013 • Cash dividends distribution of about $5 billion • Debt amortizations of about $450 million

Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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